

**UNITED STATES DEPARTMENT OF AGRICULTURE**

Farm Service Agency  
Washington, DC 20250

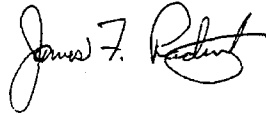
**Notice FC-135**

1980-B

**For:** State and County Offices

**Guaranteed Loan Cash Flow Projections**

**Approved by:** Acting Deputy Administrator, Farm Loan Programs



**1 Overview**

**A  
Background**

7 CFR 1980.113 requires that cash flow projections be based on the financial and production history of the operator and reflect performance reasonably expected in the operating cycle.

**B  
Purpose**

This notice:

- discusses deviations from historical performance
- clarifies that projections that are outside the range of proven performance, without adequate justification, will not be accepted.

**C  
Contacts**

State Offices shall direct questions about this notice to LMD, Guaranteed Loan Branch, through the Area Office.

**Disposal Date**

June 1, 1998

**Distribution**

State Offices; State Offices relay to County Offices

## 2 Action

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### A

#### Projecting Cash Flow

FmHA Instruction 1980-B, section 1980.113(a)(7), establishes acceptable methods for lenders to project cash flow for their loan applicants. The method selected will vary, based on individual circumstances such as:

- the applicant's number of years in operation
- previous disasters
- availability of historical production and financial records.

Use of an average of the applicant's historical performance is not required. An average is only appropriate when there have not been major changes in the operation. Use the historical data as an indicator of the capabilities and limitations of the operator and facilities, with the projection based on what can reasonably be accomplished. Of primary importance is that the plan:

- represent, as closely as possible, the predicted cash flow for the operating cycle
- be documented in sufficient detail to adequately reflect the overall condition of the operation.

The plan shall be based on the applicant's proven record of production and financial management. **In no case should the projection be outside the range of the applicant's previous performance, unless fully documented and justified by the lender.**

The lender's loan narrative shall support the projected production, income, expenses, and other major assumptions used in the cash flow budget. This is particularly important when changes have occurred in the operation or there have been unusual circumstances that support deviations from historical performance.

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**2 Action (Continued)**

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**B**

**SED Action**

SED's shall:

- instruct Credit Directors to train credit staff and lenders, as needed, on cash flow projection requirements and limitations
  - monitor cash flow analysis by credit personnel.
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**C**

**Ag Credit  
Manager (ACM)  
Action**

ACM's shall:

- review guaranteed loan applications for appropriate cash flow projections
  - ensure that any deviations from historical performance are adequately documented in the loan narrative
  - discuss this notice with lenders.
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